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before the

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the Census on

*Living in America: Is Our Public Housing System Up to the
Challenges of the 21st Century?*

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Thank you for inviting me to testify at this hearing entitled *Living in America: Is Our Public Housing System Up to the Challenges of the 21st Century?* The views that I express today are informed by almost forty years of scholarly and professional activities in affordable housing and community development policy and practice, and by my service in the administrations of both Presidents Carter and Clinton at the U.S. Department of Housing and Urban and Urban Development.

After providing the subcommittee with my perspective on public housing's origins and current trajectory, I will directly address the four questions that you have put to our panel.

Background

Public housing was first authorized by the U.S. Housing Act of 1937 as a depression-era program to create employment opportunities, stimulate the economy, remove slums, and provide low-rent housing to temporarily-out-of-work breadwinners and their families. Over the course of its sixty-nine year history, the program has seen many changes, including a virtual halt in new public housing production and a drastic change in tenant profile. As a result of changing economics, demographics and government policies, public housing gradually evolved into a program that served only the very poor.

The nation's 13,000+ public housing developments containing around 1.2 million units—located in big cities, small towns and rural America—are owned and operated by a network of more than 3,000 local public housing authorities (PHAs) under a complex set of federal rules and regulations. Long criticized as an anachronistic command and control system that suffers from a lack of market discipline and customer orientation, and a seeming inability to adopt modern asset management strategies that are common in the larger real estate sector, the public housing system has been further hampered by an on-again, off-again commitment by Congress to adequately fund its critical mission.

To put the public housing program in perspective, the inventory peaked around 1991 with 1.4 million units under Annual Contributions Contract. Over the following ten years, it fell by more than 11 percent, or by about 159,000 units, to a total of just over 1.25 million units, the same number of public housing units that existed in 1983. Today, the inventory is smaller still.

In 2001, public housing accounted for less than 4 percent of all rental housing in the nation, but nearly half (46.4 percent) of all low-rent units (those that rent for \$250 a month or less.) And notwithstanding the ongoing demolition campaign, public housing's value as an essential housing resource is likely to continue long into the future. This is because rents are rising faster than inflation, and pressures for

above-average rent increases at the bottom end of the rental market are further eroding the supply of rental units that are affordable without government subsidies.

According to HUD's own latest figures, for 2003, "there are only 78.2 affordable units for every 100 extremely low-income households in the country. The ratio of *available* units is about half as great, 44 units per 100 households, and even among these available units, only three-fourths are physically adequate."

After decades of neglect and many years of experience with newer housing programs that were successfully enacted and funded on the simple fact that they *were not public housing*, over the last fifteen years or so, there has been a renewed interest in public housing reform on the part of Congress and successive administrations.

Whether this rekindled interest was due to the lackluster performance of successor programs, or a renewed appreciation of public housing's importance as a permanent low-rent housing resource, an unprecedented surge of energy, creativity, and entrepreneurial spirit was unleashed within the public housing enterprise during the past decade. The 1990s also saw a series of fundamental changes in law and policy—including the creation of the HOPE VI program, the introduction of mixed-income and mixed-financing opportunities, and enactment of the Quality Housing and Work Responsibility Act (QHWRA) of 1998. Taken together, these reforms have the potential to dramatically improve the lives of public housing residents, reconnect them with economic opportunity, and reverse the fortunes of the very neighborhoods and communities that have been blighted by obsolete and dangerous public housing projects. In my judgment, public housing today is more innovative and dynamic than at any other time in the history of the program.

Thus, in partial answer to the question posed in the title to this hearing, while public housing is not yet fully up to the challenges of the 21st century, it has come back a long way in a relatively short period, and continues to have a significant amount of untapped housing and neighborhood development potential. But it can only fulfill that potential through deep, trusting, stable, and adequately funded partnerships with residents, their communities, government at all levels, and the private sector.

While each of these partnerships may be fraught with tensions, as an institution, public housing can only be as strong as the weakest link in this chain of relationships. And so Mr. Chairman, as we look to the future, the greatest challenge public housing authorities face is living up to their obligations to become outstanding asset managers, and by example, demonstrate their worthiness of the commitments we are asking others to make on their behalf.

Mr. Chairman, you asked each member of our panel to respond to four specific questions having to do with the roles and responsibilities of government and

others to the public housing system. Mindful of the limited time we have to address these questions, I have combined a couple of the questions so as not to repeat myself.

1. What is the proper role(s) of Federal, state and local governments in the public housing system?

In my view, federal public housing reforms enacted under QHWRA set a useful and forward looking framework for guiding public housing into the 21st century. Looking ahead, the three most important federal issues are: 1) to recognize the critical role that public housing plays in the larger affordable housing system and not to use it as a straw man for ideological purposes; 2) adequately fund public housing's capital and operating needs in a timely manner; and 3) keep in mind that QHWRA joined public housing and housing vouchers at the hip. With respect to this last point, you will recall that one of QHWRA's goals is to reduce the concentration of poverty by broadening the range of incomes of those eligible to live in public housing.

Under QHWRA, the proportion of new public housing admissions with extremely low incomes was substantially reduced in order to boost the potential for more income diversity. QHWRA also allows housing authorities to accept higher levels of extremely low-income households into their voucher programs in exchange for fewer admissions of such households into their public housing programs.

Under new tenant-based Section 8 rules, at least 75 percent of new households assisted each year must be extremely low income, and depending upon how PHAs use the fungability provision discussed above, their voucher programs might be even more deeply targeted to the very poor. If the administration and congress revise the funding rules for the voucher program, or cut back on the number of vouchers under lease, these actions not only reduce the total number of assisted households at a time when housing cost burdens are rising, but also constrain the ability of PHAs to increase the economic diversity of their public housing programs.

One final point about the federal role has to do with the oft-repeated claim that public housing is the least cost-effective form of federal housing assistance; that the reams of red tape associated with its command and control type structure is a significant cause of its inefficiencies. With all due respect, Mr. Chairman, much of the red tape associated with these inefficiencies are promulgated by HUD and the Congress, which means that government is partly to blame for some of these cost disadvantages, and that those who impose undue burdens on the institution help create a self-fulfilling prophecy that public housing is grossly more costly than other forms of housing assistance.

Because the role of state and local governments and community service organizations revolve largely, though not exclusively, around the provision of

services to public housing residents and communities, I will preface my answer to the subcommittee's question on this issue, with a brief discussion of the results of a recent Urban Institute survey of the health and related needs of public housing residents living in a sample of HOPE VI public housing communities.

This seeming digression is important because it graphically illustrates the tremendous unmet needs of public housing residents—and meeting their employability, health, security, and educational needs must be a shared responsibility. It is not humanly possible for public housing authorities alone to meet these non-housing challenges without the kind of partnerships I mentioned earlier with established networks of public and private social service organizations, which are largely funded by federal, state and local governments.

- HOPE VI residents mostly African American women, are very poor, the vast majority; following their relocation, the Urban Institute found 35% of residents to have incomes of less than \$5,000 a year; less than half were employed, and like their nonpublic housing counterparts, cycled in and out of employment;
- Overall the health of the HOPE VI sample was significantly worse than national rates—41% reported their overall health was fair or poor, a rate over three times greater than self reports of fair or poor health for all adults in US, and about twice that of black women nationally. These differences held across every age group;
- Obesity, hypertension, diabetes, arthritis and asthma rates were higher than national prevalence rates even when comparing the HOPE VI sample to other African American women nationally.
- Almost half the respondents were diagnosed as obese, more than one-third had been diagnosed with hypertension, the prevalence of diabetes is more than 30 percent higher than for black women nationally among HOPE VI sample, while one in eight HOPE VI adults reported having had an asthma attack in the past year—about three times the share of asthma attacks reported by a national sample of adults.

Two of the most maddening historical legacies of the old public housing system were that 1) the public housing authority was a good place to find loyalists patronage jobs, and 2) it wasn't the city's responsibility to provide security, or social services to public housing residents because this was FEDERAL housing. And so, with the implicit understanding that public housing developments were islands unto themselves rather than part of the fabric of our communities, it was left to PHAs to deal with the social problems of their residents without adequate resources or expertise, and to create their own police forces which drained scarce resources from

their housing maintenance and modernization programs. Thankfully, this archaic view of public housing is changing for the better. However, for a variety of reasons, including deep budget cuts in government social programs, many public and private social service providers have yet to fully integrate the urgent health and related needs of public housing residents into their priority service coverage. This is why seemingly unrelated funding cuts in federal social services programs flowing through the states, end up compromising the ability of public housing authorities to meet the challenges that this Subcommittee is addressing today.

How can the capital markets play in the system?

As we are all aware, for most of its 69 year history, public housing leveraged little private capital, with federally guaranteed bonds being fully amortized by federal annual contributions contracts; no private equity, no privately funded mortgages. With the development of HOPE VI and the introduction of mixed finance, mixed income developments, this is no longer the case. Through a variety of creative means, public housing transformations are being capitalized by a variety of public and private capital sources. This is a very positive trend.

A November 2002 GAO report found that for every dollar received in HOPE VI revitalization grants awarded through fiscal year 2001, PHAs raised an additional \$1.85 in funds from other sources, including private capital and private equity raised through syndication of federal low income housing tax credits.

A 2003 study by the nonprofit Housing Research Foundation found similar results. Its study of 28 housing authorities that received a total of 49 separate HOPE VI grants found that the total of direct government financing from federal, state, county, and/or municipal sources, including the HOPE VI award, accounted for just over 53% of total project costs. Private equity generated from sale of Low Income Housing Tax Credits accounted for 27 % of total development costs. Fifty six percent of the developments used mortgages, mostly from commercial banks.

Finally, Mr.Chairman, as the Chicago Housing Authority's dramatic transformation is being largely capitalized through the sale of investment grade bonds backed by future capital fund revenue streams that CHA will be receiving from HUD for many years to come. The key to the success and expansion of this private financing system is the steady and predictable funding of public housing capital needs by Congress.

My own analysis of public housing modernization funding over the years shows that while presidential leadership is always helpful, it has been congress not the president that has ensured that public housing capital funds would not be subject to wild swings and dangerous cuts on a year-to-year basis. For example, in 14 of the 15 years between 1987 and 2001, congress insisted on increasing funds for public

housing modernization in the face of presidential budget requests for fewer resources. This trend continues to the present. Last year, President Bush requested \$2.3 billion for the public housing capital fund, and congress saw fit to appropriate \$2.46 billion, a 7% increase. Predictable and reliable capital funding is essential for public housing's continuing access to the private capital markets.

In closing, Mr. Chairman, I want to reiterate the critical role that public housing should play in our nation's affordable housing system in the coming years, and the importance of strengthening PHA relationships with its funding and servicing partners. To be a reliable partner itself, housing authorities must continue to develop and demonstrate their asset management capabilities. They will not be able to focus on preserving current value and creating future value in their developments if they must also be the central social service provider, and fund and manage their own police forces. To move public housing forward, requires all partners to move forward together, and for government to adequately fund the services that public housing residents need in order for them to have the prospects for better lives.

Thank you.